



Arnold Schwarzenegger
Governor

February 22, 2009
22M:375:JEP:9098:9099

Ms. Debra Donelson, Workforce Investment Board Director
County of Mendocino
631 S. Orchard Avenue
Ukiah, CA 95482

Dear Ms. Donelson:

WORKFORCE INVESTMENT ACT
FISCAL AND PROCUREMENT REVIEW
FINAL MONITORING REPORT
PROGRAM YEAR 2008-09

This is to inform you of the results of our review for Program Year (PY) 2008-09 of the County of Mendocino Local Workforce Investment Area's (Mendocino LWIA) Workforce Investment Act (WIA) grant financial management and procurement systems. This review was conducted by Ms. Jennifer Patel from April 27, 2009 through April 30, 2009. For the fiscal portion of the review, we focused on the following areas: fiscal policies and procedures, accounting system, reporting, program income, expenditures, internal control, allowable costs, cash management, cost allocation, indirect costs, cost/resource sharing, fiscal monitoring of subrecipients, single audit and audit resolution policies and procedures for its subrecipients, and written internal management procedures. For the procurement portion of the review, we examined procurement policies and procedures, methods of procurement, procurement competition and selection of service providers, cost and price analyses, contract terms and agreements, and property management.

Our review was conducted under the authority of Section 667.410(b)(1), (2) & (3) of Title 20 of the Code of Federal Regulations (20 CFR). The purpose of this review was to determine the level of compliance by the Mendocino LWIA with applicable federal and state laws, regulations, policies, and directives related to the WIA grant regarding financial management and procurement for PY 2008-09.

We collected the information for this report through interviews with representatives of the Mendocino LWIA, a review of applicable policies and procedures, and a review of documentation retained by the Mendocino LWIA for a sample of expenditures and procurements for PY 2008-09.

We received your response to our draft report on August 28, 2009, and reviewed your comments and documentation before finalizing this report. Your response did not address finding one] cited in the draft report, we consider this finding unresolved. We requested that the Mendocino LWIA provide the Compliance Review Office (CRO) with additional information to resolve the issue that led to the finding. Therefore, this finding remains open and has been assigned Corrective Action Tracking System (CATS) number 90186. However, your response adequately addressed finding two cited in the draft report, and no further action is required at this time. However, this issue will remain open until we verify the implementation of your stated corrective action plan (CAP) during a future on-site review. Until then, this finding is assigned Corrective Action Tracking System (CATS) numbers 90187.

BACKGROUND

The Mendocino LWIA was awarded WIA funds to administer a comprehensive workforce investment system by way of streamlining services through the One-Stop delivery system. For PY 2008-09, the Mendocino LWIA was allocated: \$266,824 to serve 85 adult participants; \$273,043 to serve 70 youth participants; and \$288,487 to serve 60 dislocated worker participants.

For the quarter ending March 31, 2009, the Mendocino LWIA reported the following expenditures and enrollments for its WIA programs: \$221,938 to serve 71 adult participants; \$253,597 to serve 36 youth participants; and \$244,145 to serve 31 dislocated worker participants.

FISCAL REVIEW RESULTS

While we concluded that, overall, the Mendocino LWIA is meeting applicable WIA requirements concerning financial management, we noted an instance of noncompliance in the area of accrual reporting. The finding that we identified in this area, our recommendation, and the Mendocino LWIA's proposed resolution of the finding is specified below.

FINDING 1

Requirement: 29 CFR 97.20(b)(1) states, in part, that financial reporting must be accurate, current, and complete.

20 CFR 667.300(c) states, in part, that reported expenditures and program income must be on the accrual basis of accounting and cumulative by fiscal year of appropriation.

WIA Directive (WIAD) 06-4 states, in part, that for quarterly expenditures (including accruals) a separate expenditure report must be filed for each line item or grant code.

Observation: We found that the Mendocino LWIA does not report administrative accrued expenditures as a separate line item in the Job Training Automation (JTA) system quarterly expenditure report. Specifically, the Mendocino LWIA tracks accrued administrative expenditures in their internal accounting records but reports both accrued and cash administrative expenditures in the administrative cash expenditure line.

Recommendation: We recommended that the Mendocino LWIA provide the Compliance Review Office (CRO) with a CAP stating how it will ensure that accrued expenditures are reported separately from cash expenditures in the quarterly expenditure report. Additionally, we recommended that the Mendocino LWIA provide CRO documentation showing that administrative accruals have been reported appropriately in the JTA system.

LWIA Response: The Mendocino LWIA stated that the following has been implemented in the internal system: in the spreadsheet that is used to derive the monthly reporting, a color coding conditional check has been applied to the accrued column so that if accrued payroll exists for that month and no accrued expenses have been placed in the accrued expense cell, the background color will change. The change of background color will serve as a flag to prompt reporting of accrued expenses. The Mendocino LWIA also provided copies of the JTA reports for grant code 102 ARRA Adult, grant code 105 ARRA Youth, and grant code 105 ARRA DW for quarter ending June 30, 2009. These reports show that the Mendocino LWIA is reporting accrued administrative expenditures in the correct line.

State Conclusion: Based on the Mendocino LWIA's response, we cannot resolve this issue at this time. While the Mendocino LWIA provided a CAP and some JTA expenditure reports, they did not provide expenditure reports for grant codes 201, 202, 301, 302, 501, and 502 (adult, youth, and dislocated worker). The JTA report for quarter ending June 30, 2009 shows that administrative accrued expenditures still has not been reported for grant codes 201, 202, 301, 302, 501, and 502. In addition, we reviewed the JTA expenditure reports for the quarter ending September 30, 2009

and found that no administrative accrued expenditures had been reported for any of the grant codes reported. It appears that the CAP provided by the Mendocino LWIA may have been implemented for its ARRA reports, but has not been implemented for its Adult, Dislocated Worker, and Youth reports. Therefore, we recommend that the Mendocino LWIA provide CRO documentation showing that administrative accruals have been reported appropriately in the JTA system for the above grant codes. This issue has been assigned CATS number 90186.

PROCUREMENT REVIEW RESULTS

While we concluded that, overall, the Mendocino LWIA is meeting applicable WIA requirements concerning procurement, we noted an instance of noncompliance in the area of contracts. The finding that we identified in this area, our recommendation, and the Mendocino LWIA's proposed resolution of the finding is specified below.

FINDING 2

Requirement: 29 CFR Section 97.36(f)(1) states, in part, that grantees and subgrantees must perform a cost or price analysis in connection with every procurement action including contract modifications.

29 CFR Section 97.36(b)(1) states, in part, that grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulation provided that the procurements conform to applicable federal law and the standards identified in this section.

Observation: The Mendocino LWIA does not conduct a cost or price analysis when modifying the contract with their one-stop operator, the Mendocino Private Industry Council (MPIC). The MPIC contract has been revised annually since 2000 to extend the duration of the contract in one-year increments.

Recommendation: We recommended that the Mendocino LWIA provide CRO with a CAP stating how it will ensure that a cost or price analysis is completed for all future contract modifications.

LWIA Response: The Mendocino LWIA stated that the WIA Administrative Fiscal unit will provide a cost analysis to the Executive committee of the

WIB for approval at the time of updating the one-stop operator contract.

State Conclusion: The Mendocino LWIA stated corrective action should be sufficient to resolve this issue. However, we cannot close this issue until we verify, during a future on-site visit, the Mendocino LWIA's successful implementation of its stated corrective action. Until then, this issue remains open and has been assigned CATS number 90187.

In addition to the finding above, we identified a condition that may become a compliance issue if not addressed. We reviewed the Mendocino LWIA's contract with Mendocino-Lake-Community College District and found it did not include the awarding agency requirements and regulations pertaining to reporting. This contract expired December 31, 2008. We suggested that the Mendocino LWIA update its current contract boilerplate to ensure all future contracts with governmental entities contain all the required provisions. The Mendocino LWIA did not respond to our concern.

We provide you up to 20 working days after receipt of this report to submit to the Compliance Review Office your response to this report. Because we faxed a copy of this report to your office on the date indicated above, we request your response no later than March 22, 2010. Please submit your response to the following address:

Compliance Monitoring Section
Compliance Review Office
722 Capitol Mall, MIC 22M
P.O. Box 826880
Sacramento, CA 94280-0001

In addition to mailing your response, you may also FAX it to the Compliance Monitoring Section at (916) 654-6096.

Because the methodology for our monitoring review included sample testing, this report is not a comprehensive assessment of all of the areas included in our review. It is the Mendocino LWIA's responsibility to ensure that its systems, programs, and related activities comply with the WIA grant program, Federal and State regulations, and applicable State directives. Therefore, any deficiencies identified in subsequent reviews, such as an audit, would remain the Mendocino LWIA's responsibility.

Ms. Debra Donelson

-6-

February 22, 2009

Please extend our appreciation to your staff for their cooperation and assistance during our review. If you have any questions regarding this report or the review that was conducted, please contact Ms. Mechelle Hayes at (916) 654-1292.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jessie Mar".

JESSIE MAR, Chief
Compliance Monitoring Section
Compliance Review Office

cc: Linda Beattie, MIC 50
Greg Gibson, MIC 50
Jose Luis Marquez, MIC 50
Daniel Patterson, MIC 45